

REDWOOD TRUST INC  
Form 10-Q  
May 04, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended: March 31, 2006**

**OR**

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 1-13759**  
**REDWOOD TRUST, INC.**

*(Exact name of Registrant as specified in its Charter)*

**Maryland**

*(State or other jurisdiction of incorporation or organization)*

**68-0329422**

*(I.R.S. Employer Identification No.)*

**One Belvedere Place, Suite 300**  
**Mill Valley, California**

*(Address of principal executive offices)*

**94941**

*(Zip Code)*

**(415) 389-7373**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the last practicable date.

Common Stock (\$0.01 par value per share) 25,503,128 as of May 3, 2006

**REDWOOD TRUST, INC.  
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CONSOLIDATED BALANCE SHEETS**

| (In thousands, except share data)<br>(Unaudited) | March 31, 2006           | December 31, 2005        |
|--|--------------------------|--------------------------|
| <b>ASSETS</b>                                    |                          |                          |
| Residential real estate loans                    | \$ 11,990,216            | \$ 13,874,792            |
| Residential loan credit-enhancement securities   | 643,823                  | 612,649                  |
| Commercial real estate loans                     | 55,167                   | 59,692                   |
| Commercial loan credit-enhancement securities    | 66,648                   | 57,687                   |
| Securities portfolio                             | 1,817,628                | 1,748,581                |
| Cash and cash equivalents                        | 85,466                   | 175,885                  |
| <br>Total Earning Assets                         | <br>14,658,948           | <br>16,529,286           |
| Restricted cash                                  | 131,171                  | 72,421                   |
| Accrued interest receivable                      | 73,418                   | 76,469                   |
| Interest rate agreements                         | 47,642                   | 31,220                   |
| Principal receivable                             | 1,521                    | 225                      |
| Deferred tax asset                               | 4,866                    | 5,384                    |
| Deferred asset-backed security issuance costs    | 51,583                   | 54,125                   |
| Other assets                                     | 9,593                    | 7,830                    |
| <br><b>Total Assets</b>                          | <br><b>\$ 14,978,742</b> | <br><b>\$ 16,776,960</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|  |                |                |
|--|----------------|----------------|
| <b>LIABILITIES</b>   |                |                |
| Redwood debt   | \$             | \$ 169,707     |
| Asset-backed securities issued   | 13,929,907     | 15,585,277     |
| Accrued interest payable   | 43,402         | 41,027         |
| Interest rate agreements   | 337            | 507            |
| Accrued expenses and other liabilities   | 19,996         | 27,889         |
| Dividends payable  | 17,767         | 17,593         |
| <br>Total Liabilities  | <br>14,011,409 | <br>15,842,000 |
| <br>Commitments and contingencies (Note 11)  |                |                |
| <b>STOCKHOLDERS EQUITY</b>   |                |                |
| Common stock, par value \$0.01 per share,<br>50,000,000 shares authorized; 25,381,858 and 25,132,625 |                |                |
| issued and outstanding   | 254            | 251            |
| Additional paid-in capital   | 839,167        | 824,365        |
| Accumulated other comprehensive income   | 81,591         | 73,731         |
| Cumulative earnings  | 709,494        | 681,479        |

|  |                      |                      |
|--|----------------------|----------------------|
| Cumulative distributions to stockholders         | (663,173)            | (644,866)            |
| Total Stockholders Equity                        | 967,333              | 934,960              |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 14,978,742</b> | <b>\$ 16,776,960</b> |

The accompanying notes are an integral part of these consolidated financial statements.

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**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

Three Months Ended March 31,

| (In thousands, except share data)<br>(Unaudited)        | 2006       | 2005       |
|---|------------|------------|
| <b>Interest Income</b>                                  |            |            |
| Residential real estate loans                           | \$ 165,805 | \$ 198,645 |
| Residential loan credit-enhancement securities          | 27,748     | 19,624     |
| Commercial real estate loans                            | 1,273      | 1,402      |
| Commercial loan credit-enhancement securities           | 759        | 356        |
| Securities portfolio                                    | 27,563     | 17,584     |
| Cash and cash equivalents                               | 2,477      | 580        |
| Interest income before provision for credit losses      | 225,625    | 238,191    |
| Provision for credit losses                             | (176)      | (1,025)    |
| Total interest income                                   | 225,449    | 237,166    |
| <b>Interest Expense</b>                                 |            |            |
| Redwood debt  | (2,097)    | (2,728)    |
| Asset-backed securities issued                          | (178,605)  | (173,239)  |
| Total interest expense                                  | (180,702)  | (175,967)  |
| <b>Net Interest Income</b>                              | 44,747     | 61,199     |
| Operating expenses                                      | (12,102)   | (10,972)   |
| Net recognized (losses) gains and valuation adjustments | (1,870)    | 15,012     |
| Net income before provision for income taxes            | 30,775     | 65,239     |
| Provision for income taxes                              | (2,760)    | (4,677)    |
| <b>Net Income</b>                                       | \$ 28,015  | \$ 60,562  |
| Basic Earnings Per Share:                               | \$ 1.11    | \$ 2.49    |
| Diluted Earnings Per Share:                             | \$ 1.09    | \$ 2.42    |
| Regular dividends declared per common share             | \$ 0.70    | \$ 0.70    |
| Special dividends declared per common share             | \$         | \$         |
| Total dividends declared per common share               | \$ 0.70    | \$ 0.70    |
| Basic weighted average shares outstanding               | 25,201,525 | 24,357,225 |
| Diluted weighted average shares outstanding             | 25,702,730 | 25,020,932 |

The accompanying notes are an integral part of these consolidated financial statements.

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**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| (In thousands)<br>(Unaudited)   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2006                            | 2005      |
| <b>Net income</b>   | \$ 28,015                       | \$ 60,562 |
| <b>Other comprehensive income:</b>  |                                 |           |
| Net unrealized (losses) gains on available-for-sale securities (AFS)  | (8,058)                         | 17,358    |
| Reclassification adjustment for net losses (gains) included in net income   | 1,997                           | (10,042)  |
| Net unrealized gains on cash flow hedges  | 14,187                          | 11,994    |
| Reclassification of net realized cash flow hedge (gains) losses to interest expense on asset-backed securities issued | (266)                           | 117       |
| <b>Total other comprehensive income</b>   | 7,860                           | 19,427    |
| <b>Comprehensive Income</b>   | \$ 35,875                       | \$ 79,989 |

The accompanying notes are an integral part of these consolidated financial statements.

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**REDWOOD TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

For the Three Months Ended March 31, 2006:

(In thousands, except share  
data)  
(Unaudited)

|  | Common Stock |        | Additional      | Other                | Cumulative | Cumulative                    | Total      |
|--|--------------|--------|-----------------|----------------------|------------|-------------------------------|------------|
|  | Shares       | Amount | Paid-In Capital | Comprehensive Income | Earnings   | Distributions to Stockholders |            |
| <b>December 31, 2005</b>   | 25,132,625   | \$ 251 | \$ 824,365      | \$ 73,731            | \$ 681,479 | \$ (644,866)                  | \$ 934,960 |
| Net income   |              |        |                 |                      | 28,015     |                               | 28,015     |
| Net unrealized loss/reclassification on assets AFS               |              |        |                 | (6,061)              |            |                               | (6,061)    |
| Net unrealized gain/reclassification on interest rate agreements |              |        |                 | 13,921               |            |                               | 13,921     |
| Issuance of common stock:  |              |        |                 |                      |            |                               |            |
| Dividend Reinvestment & Stock Purchase Plans                     | 209,653      | 2      | 8,697           |                      |            |                               | 8,699      |
| Employee Option & Stock Purchase Plans                           | 42,126       | 1      | 471             |                      |            |                               | 472        |
| Restricted Stock & Stock DERs                                    | (2,546)      |        | 5,634           |                      |            |                               | 5,634      |
| Dividends declared:  |              |        |                 |                      |            |                               |            |
| Common   |              |        |                 |                      |            | (18,307)                      | (18,307)   |
| <b>March 31, 2006</b>  | 25,381,858   | \$ 254 | \$ 839,167      | \$ 81,591            | \$ 709,494 | \$ (663,173)                  | \$ 967,333 |

For the Three Months Ended March 31, 2005:

|                          | Common Stock |        | Additional      | Other                | Cumulative | Cumulative                    | Total      |
|--------------------------|--------------|--------|-----------------|----------------------|------------|-------------------------------|------------|
|                          | Shares       | Amount | Paid-In Capital | Comprehensive Income | Earnings   | Distributions to Stockholders |            |
| <b>December 31, 2004</b> | 24,153,576   | \$ 242 | \$ 773,222      | \$ 105,357           | \$ 481,607 | \$ (496,272)                  | \$ 864,156 |



|  |            |        |            |            |            |              |            |
|--|------------|--------|------------|------------|------------|--------------|------------|
| Net income   |            |        |            |            | 60,562     |              | 60,562     |
| Net unrealized gain/reclassification on assets AFS               |            |        |            |            | 7,316      |              | 7,316      |
| Net unrealized gain/reclassification on interest rate agreements |            |        |            |            | 12,111     |              | 12,111     |
| Issuance of common stock:  |            |        |            |            |            |              |            |
| Dividend Reinvestment & Stock Purchase Plans                     | 344,755    | 3      | 19,245     |            |            |              | 19,248     |
| Employee Option & Stock Purchase Plans                           | 13,870     |        | 222        |            |            |              | 222        |
| Restricted Stock & Stock DERs                                    | 2,021      |        | 1,631      |            |            |              | 1,631      |
| Dividends declared: Common                                       |            |        |            |            |            | (17,245)     | (17,245)   |
| <b>March 31, 2005</b>  | 24,514,222 | \$ 245 | \$ 794,320 | \$ 124,784 | \$ 542,169 | \$ (513,517) | \$ 948,001 |

The accompanying notes are an integral part of these consolidated financial statements

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**REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

**Three Months Ended  
March 31,**